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Comptroller of the Currency  
Administrator of National Banks

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Small Bank

## **PUBLIC DISCLOSURE**

**July 13, 1998**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Waverly  
Charter No. 3105**

**316 E. Bremer Avenue  
Waverly, IA 50677**

**Office of the Comptroller of the Currency  
920 Second Ave. S. Suite 800  
Minneapolis, MN 55402**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Waverly** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 13, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** The institution is rated "Satisfactory".

The bank's penetration of lending to low- and moderate income borrowers is reasonable. The bank has good loan distribution to small farm operations. The bank's volume of lending, as illustrated by their loan-to-deposit ratio, is more than reasonable.

## DESCRIPTION OF INSTITUTION

First National Bank (FNB) of Waverly, a \$109 million institution located in northeast Iowa, has a main office and branch location in Waverly, Iowa. They also have five ATMs, two of which are located in the drive-up facilities of the main office and branch in Waverly. Three have cash dispensing only options and are located at Kwik Star convenience stores in Janesville, Cedar Falls and Waterloo, Iowa. First of Waverly Corporation is a one bank holding company owning 98% of the bank. FNB Waverly's last Community Reinvestment Act (CRA) Performance Evaluation rating, given in August 1994, was "Outstanding".

Competition consists of two state banks in Waverly and several community banks in surrounding rural towns. In addition, the John Deere Credit Union and Farm Credit Services compete for residential real estate and farm loans, respectively. There are no legal or financial impediments limiting FNB Waverly's ability to meet community credit needs.

The bank is a full-service provider offering a wide variety of loan and deposit products. Participation in numerous federal and state government sponsored or guaranteed loan programs increases the availability of credit options for their customers (see Services section for details). Trust services and sales of nondeposit investment products are also available.

The bank's lending is diverse by product type. The bank has four primary product lines: commercial, agriculture, and 1-4 family purchases, as shown by dollar volume of originations; and, consumer lending, which represents a large portion of lending by the number of loans originated. The following table details the bank's origination activity by loan type for 1996, 1997 and year to date 1998.

<b>Loan Type</b>	<b>Number of Loans</b>	<b>% of Total</b>	<b>Dollar Volume (.000's)</b>	<b>% of Total</b>
<b>Commercial and Commercial RE</b>	343	12%	\$43,898	35%
<b>Agriculture</b>	525	19%	\$29,792	24%
<b>1-4 Family Residential RE Purchases</b>	148	5%	\$9,737	7%
<b>1-4 Family Residential RE Refinancings</b>	168	6%	\$11,173	9%
<b>Consumer Installment Loans</b>	1290	46%	\$15,387	12%
<b>Other Loans</b>	121	4%	\$8,514	7%
<b>Construction &amp; Land Development</b>	24	1%	\$4,425	3%
<b>1-4 Family 2nd Real Estate Mortgages</b>	198	7%	\$3,575	3%
<b>Total Loan Originations</b>	2817	100%	\$126,501	100%

## DESCRIPTION OF THE ASSESSMENT AREA

The assessment area (AA) of FNB Waverly is comprised of Bremer County, the most southwest corner of Chickasaw County and eastern Butler County, Iowa. Cities included in the AA are: Waverly, Shell Rock, Clarksville, New Hartford, Nashua, Tripoli and Janesville. The AA is legal and does not arbitrarily exclude any low- or moderate-income areas.

The population of the assessment area is 30 thousand. Unemployment is at 2% of the population with 4% of households below poverty level. Owner-occupied units account for 70% of total housing units. A community contact with a local realtor and information obtained from a recent HUD review of Bremer County housing sales, reveals a higher cost market for residential real estate. The sales of residential real estate in Bremer County from December 1995 to April 1997 show a median sales price of \$85 thousand. The average assessed value of 1-4 family residential units in the City of Waverly as of January 1997 was \$69 thousand.

While the assessment area is primarily rural and dependent on the agriculture economy, a community contact with an area economic development representative also showed Waverly as having a diverse and well-balanced economy for their size community of industrial, retail and agriculture entities. This balance has enabled the city of Waverly to see slow expansion in the last few years with a noncyclical, good economy. The diversity of industry also demands a higher skilled labor force. In addition, several higher education institutions are located in and around the AA.

The updated 1998 Median Family Income for the assessment area is \$41,200. The following table describes the income profile of the census tracts and the income level of the families located in the AA.

<b>FNB Waverly Assessment Area Profile</b>				
	<b>Income levels of families</b>	<b>Number of Tracts</b>	<b>% of Total</b>	<b>% of Families</b>
<b>Low-Income</b>	\$0-\$21,000	0	0%	15%
<b>Moderate-Income</b>	\$22,000-\$33,000	0	0%	17%
<b>Middle-Income</b>	\$34,000-\$49,000	7	70%	25%
<b>Upper-Income</b>	> \$50,000	3	30%	43%
<b>Total</b>		10	100%	100%

The majority, 75%, of businesses in the assessment area reported gross revenues less than \$500 thousand from 1990 census data. The average farm has \$205 thousand in revenues per the 1996 Farm Summary for Northeast Iowa.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### ***Lending to Individuals of Different Incomes:***

The bank's record of lending to individuals of low- and moderate-income is reasonable. Auto lending to low- and moderate-income borrowers exceeds the demographics in number of loans and meets the demographics for dollar volume. 1-4 family residential real estate lending to moderate-income borrowers meets the demographics by number and approaches them by dollar volume. While the bank's penetration to low-income borrowers for residential real estate lending is below the demographics, it is reasonable in light of the high cost housing market the bank originates loans in. The median sales price of a home in Bremer County from 12/95 to 4/97 was \$85 thousand. This information was obtained by a representative of U.S. Department of Housing & Urban Development (HUD) who was reassessing the cost of housing in the area to establish minimum HUD program standards for the bank. If you also include housing stock that has not been recently marketed, the average tax assessed value as of 1/97 was \$69 thousand. These housing costs illustrate the low opportunity low-income families in the bank's assessment area, who make from \$0-\$20 thousand a year, have to qualify for the average home purchase.

Our review included 1-4 family residential home purchases, which represents 7% by dollar volume and 5% by number of total loans originations in 1996, 1997 and YTD 1998. In addition, non real estate consumer lending was also reviewed using direct and indirect auto loans, which represented 5% by dollar volume and 19% by number of total originations in that same period.

We used the bank's Home Mortgage Disclosure Act-Loan Application Register to record the income levels of 100% of 1-4 family home purchases in 1996, 1997 and YTD 1998. A sample was taken of direct and indirect auto loans. The sample included 53 loans totaling \$561 thousand. The sample represents 9% by dollar volume and 10% by number of all auto loan originations in 1996, 1997 and YTD 1998.

The results of our sampling are illustrated below.

<b>Distribution of Lending by Borrower Income</b>			
<b>Low Income Borrowers</b>	<b>FNB Waverly's Lending Record</b>		<b>% of Low Income Families in Assessment Area</b>
	<b>% of Total by Number of Loans</b>	<b>% of Total by Dollar of Loans</b>	
Auto Loans	19%	17%	15%
1-4 Family Home Purchases	7%	3%	
<b>Moderate Income Borrowers</b>			<b>% of Moderate Income Families in Assessment Area</b>
Auto Loans	26%	16%	17%
1-4 Family Home Purchases	17%	12%	
<b>Middle Income Borrowers</b>			<b>% of Middle Income Families in Assessment Area</b>
Auto Loans	30%	33%	25%
1-4 Family Home Purchases	29%	25%	
<b>Upper Income Borrowers</b>			<b>% of Upper Income Families in Assessment Area</b>
Auto Loans	25%	34%	43%
1-4 Family Home Purchases	47%	60%	

***Lending to Businesses and Farms of Different Sizes:***

The distribution of loans to farms of different sizes is good. All farm size categories have adequate penetration. Loans to farms under \$100 thousand in revenues shows more than reasonable penetration, 40% by number of loans and 13% by dollar volume. The average farm cash income for Northeast area Iowa farms is \* \$205,514. (See "\*" on next page for explanation). The bank has 72% by number and 48% by dollar volume of loans to farmers who have less than \$200 thousand in annual revenues.

A sample of agriculture customers was done using originations in 1996, 1997 and YTD 1998. The sample included 117 loans totaling \$4.5 million. This represents 22% by number and 15% of originations over that time period.

The chart below illustrates the bank's lending distribution to farm operations of different sizes.

<b>Lending Distribution Based on Revenue Size of Farms 1996 &amp; 1997 &amp; YTD 1998 Agriculture Loan Originations</b>		
<b>Revenue Size of Farms Sampled \$(000's)</b>	<b>FNB Lending Distribution by Number of Loans</b>	<b>FNB Lending Distribution by Dollar of Loans</b>
<b>\$0 - \$40</b>	<b>10%</b>	<b>2%</b>
<b>\$40- \$100</b>	<b>30%</b>	<b>11%</b>
<b>\$100 - \$200</b>	<b>32%</b>	<b>35%</b>
<b>Average Northeast Iowa farm income = \$205,514*</b>		
<b>\$200 - \$500</b>	<b>23%</b>	<b>35%</b>
<b>&gt; \$500</b>	<b>5%</b>	<b>17%</b>
<b>Totals</b>	<b>100%</b>	<b>100%</b>

\* Average farm income was derived from the 1996 Farm Summary for Northeast Iowa, published by the University Extension of Iowa State University. The data for this report was collected by Iowa Farm Business Association consultants and compiled by the Iowa State University Extension. Only farms with sales of \$40 thousand or more were counted in this weighted average. Thus, the overall average should be reflective of full-time Iowa farmers with the need for credit.

FNB's lending record to businesses of different sizes is reasonable. Almost all business size categories are penetrated and there is an adequate distribution of loans by number and dollar volume. The bank makes 48% of its business loans by number and 14% by dollar volume to businesses with revenues less than \$500 thousand. This compares to 75% of businesses by number represented in that category in their assessment area using 1990 Census information.

A sample of business customers was done using originations in 1996, 1997 and YTD 1998. The sample included 78 loans totaling \$15.5 million. This represents 23% by number and 35% of originations over that time period. The chart below illustrates the bank's lending distribution to businesses of different sizes in relation to the sizes of businesses represented in their community using 1990 census information.

<b>Lending Distribution Based on Revenue Size of Businesses 1996 &amp; 1997 &amp; YTD 1998 Business Loan Originations</b>			
<b>Revenue Size of Businesses Sampled \$(000's)</b>	<b>FNB Lending Distribution by Number of Loans</b>	<b>Percentage of Businesses in each Revenue Category ( census information)</b>	<b>FNB Lending Distribution by Dollar of Loans</b>
\$0 - \$50	10%	75%	1%
\$50 - \$100	0%		0%
\$100 - \$250	16%		8%
\$250 - \$500	22%		5%
\$500 - \$1,000	6%	4%	5%
\$1,000 - \$10,000	32%	7%	35%
\$5,000 - \$25,000	4%		3%
> \$25,000	10%	0%	43%
Totals	100%	86%	100%
Percentage of Businesses in Assessment that did not Report Revenue Volumes		14%	

### ***Loan to Deposit Analysis***

The bank's average loan-to-deposit ratio from September 1994 to March 1998 is 71.6%. This ratio is more than reasonable given the bank's size, financial condition and lending opportunities within its assessment area. FNB Waverly has the second highest average loan-to-deposit ratio of any bank within their competitive area. The loan-to-deposit ratio is also enhanced by the bank's origination of 147 residential home loans totaling \$10.8 million sold to the secondary market since the last examination.

The following table illustrates the average loan-to-deposit ratios from December 31, 1994 to March 31, 1998 for similarly situated financial institutions operating in the bank's assessment area. Total asset figures are from the March 31, 1998 Reports of Condition.

<b>Loan-to-Deposit Ratios for Subject Bank and Comparable Banks</b>			
<b>Name of Bank</b>	<b>Location</b>	<b>Total Assets (000's)</b>	<b>LTD Ratio*</b>
Security State Bank	Waverly, IA	\$42,569	73.74%
The First National Bank of Waverly	Waverly, IA	\$108,895	71.65%
State Bank of Waverly	Waverly, IA	\$108,513	55.82%
First Nashua State Bank	Nashua, IA	\$44,569	28.72%

\*LTD= Average of Quarterly Net Loan-to-Deposit Ratios from 12/94-3/98.

### ***Lending Inside the Assessment Areas***

FNB Waverly originates a majority of their loans inside of their assessment area based on our review of various types of loans originated in 1996, 1997 and YTD 1998. The following table illustrates the level of penetration of lending inside the bank's assessment area by product type:

<b>Penetration of Lending Inside the Assessment Area Loans Originated in 1996, 1997 and YTD 1998</b>		
	<b>% of Total Number of Loans Inside the Assessment Area</b>	<b>% of Total Dollar Amount of Loans Inside the Assessment Area</b>
Business Loans	78%	78%
Agriculture Loans	75%	50%
1-4 Family Home Purchases	91%	94%
Auto Loans	66%	66%

The business loan sample included 100 loans totaling \$20 million. This represents 29% by number and 46% by dollar volume of loans originated in 1996, 1997 & YTD 1998. The agriculture loan sample included 155 loans totaling \$9 million. This represents 30% by number and dollar volume of loans originated in that same period. The 1-4 family residential real estate review included 100% of the home purchase and refinancings on the bank's 1996, 1997 and YTD 1998 Home Mortgage Data Act - Loan Application Register (HMDA-LAR). Finally, the auto loan sample included 80 loans totaling \$786 thousand. This represents 15% by number and 14% by dollar volume of loans in the review period. The above samples differ from those described on pages 5-8 as they include loans made outside as well as inside the AA.

### ***Geographic Distribution of Loans:***

All BNA's in the assessment area are considered middle- or upper-income. Given the homogenous nature of the assessment area and the lack of low- or moderate-income geographies in the assessment area, an analysis of the distribution of loans among geographies was not done.

### ***Response to CRA Related Complaints***

The bank has not received any CRA related complaints since the previous evaluation.

### ***Compliance with Antidiscrimination Laws***

The FNB Waverly is in compliance with applicable antidiscrimination laws and regulations. We found no evidence of apparent disparate treatment during our fair lending review.

### **Conclusions with Respect to Services**

The bank offers a wide-variety of loan and deposit product services. In addition, the bank's involvement in numerous government sponsored or guaranteed loan programs enables them to better serve the needs of low- and moderate- income borrowers. For example, the bank offers the widest variety of home-related mortgage products of any local institution. This, in addition to them being a volume seller to the secondary market enables them to increase their ability to find credit products to work for all income types. Community contacts confirmed the bank's flexibility in qualifying low- and moderate-income home lending applicants. First Time Home Buyer's Seminars and Home Improvement Seminars are also periodically conducted by the bank for the community.

Lending to small businesses and farms is enhanced through involvement in the following programs: REC acreage, FmHA, SBA and Iowa Agricultural Development Authority. They also participate in Federal and State interest rate assistance programs and the Iowa State Treasurer Link Deposit Program, which makes low interest rate loans to businesses owned by women or minorities. The bank is one of the few active lenders in the program in Northeast Iowa and currently has 13 businesses participating in this program with loans totaling \$511 thousand.

FNB Waverly offers a high degree of accessibility of services to their customers through hours of operations and number of facilities. It is the only financial institution open for any type of business on Saturday. It is also the only institution open by 7:30a.m. weekdays to accommodate shift changes at local manufacturers. In addition, the bank offers the only PC-banking option in the community.